

Thailand Morning Cuppa

Top Stories & Bulletins

STOCK/SECTOR	NEWS	COMMENT	RATING
Finance	The Office of the Consumer Protection Board (OCPB) is planning to help borrowers of all types of hire purchase (HP) loans – particularly motor vehicle and motorcycle HPs, which have been impacted by the pandemic and high household leverage.	While this news will be a slight negative on investor sentiment for both banks and non-bank financial institutions or NBFIs, we believe the impact on earnings will be negligible. This is because we think the OCPB will set the HP ceiling rate in the range of 25-33% pa from no ceiling rate currently – this is in line with interest rates for personal and nano loans.	Sector: NEUTRAL
Muang Thai Capital (MTC TB)			Stocks: MTC: BUY, TP: THB68.00
Srisawad Corp (SAWAD TB)			SAWAD: BUY, TP: THB71.50
Ngern Tid Lor (TIDLOR TB)	The proposed measures will focus on the reduction in HP rates and interest rates on default, as well as pricing of repossessed assets during auction. The revised law is expected to be announced sometime this month. <i>(Various media)</i>	Although banks are bigger providers of HP financing compared to NBFIs, their customers are usually charged lower rates vs the latter's due to the former's strategies towards lower risks. That said, current HP rates charged by banks and NBFIs are already lower than the 25-33% range. With investors more focused on economic recovery, price competition, and policy rate movements, any share price weakness – particularly for NBFIs stocks – on the back of this news will likely be modest, in our view.	TIDLOR: NOT RATED
Tisco Financial Group (TISCO TB)			TISCO: BUY, TP: THB111.00
Kiatnakin Phatra Bank (KKP TB)			KKP: NEUTRAL, TP: THB56.00
TMBThanachart Bank (TTB TB)			TTB: NEUTRAL, TP: THB1.00
		We note that key non-bank players Muang Thai Capital (MTC), Srisawad Corp (SAWAD), and Ngern Tid Lor (TIDLOR) charge interest rates at c.24% (3% of loans), c.>30% (12% of loans), and c.15% (17% of 2Q21 loans). Meanwhile, banks' HP rates are lower at between 5% and 13%, but HP loans account for a bigger 30-70% of their loans, especially Tisco Financial Group (TISCO; the most), Kiatnakin Phatra Bank (KKP), and TMBThanachart Bank (TTB). We retain our calls and TPs for the counters above that are under our coverage.	

Energy
petrochemical
utilities

IRPC
(IRPC TB)

& IRPC is attempting to meet Euro 5 standards under its Ultra Clean Fuel (UCF) project for its investment into the Refinery Efficiency & Diesel Quality Improvement initiative. This is in accordance with Ministry of Energy’s policy, which states that diesel distribution must meet Euro 5 standards from 1 Jan 2024 to reduce pollution and fine particles or PM 2.5 issues. The project is also in line with the company’s strategy to enhance its long-term competitive advantages.

Meanwhile, an environmental impact assessment or EIA has been granted by the Office of Natural Resources and Environmental Policy & Planning or ONEP. The investment cost is c.THB13.3bn and is slated to commence commercial operations by Jan 2024. Once the project is completed, the company will be able to fully convert high-sulphur diesel to low-sulphur variance, in accordance to Euro 5 standards. (*Thai Post, Company*)

The oil business contributes c.67% of IRPC’s revenue while 31% and 2% are from petrochemicals and other segments. Therefore, the oil improvement process will be highly beneficial to the company. Its GRM is expected to improve after the completion of the UCF project.

IRPC’s oil portfolio will also change, from the current 10% jet oil, 46% high sulphur oil, and 45% low sulphur oil to 9% jet oil and 91% low sulphur oil. The project is now in the process of hiring contractors and consultants (EPC) such as Hyundai Engineering, Wison Engineering, and Foster Wheeler. The project was delayed due to COVID-19 in 2020 and 2021. However, IRPC expects to speed up the process, as its contractors have experience in managing and constructing oil plants worldwide. The company expects to complete the UCF project by Jan 2024.

In 2H21/2022, IRPC should benefit from the reopening of the global economy – especially when the US driving season kicks in – which will boost GRM. Meanwhile, its chemical spread tends to soften slightly on new supply coming in. 2H21F earnings should moderate on the broad normalisation in chemical spreads. However, IRPC’s numbers may hold up well vs its peers due to its favourable exposure to the lube base oil and styrenics markets. The company also continuously grows and develops its business to include higher value-added products. We maintain our call and TP on IRPC. Our sector Top Pick is PTT Exploration & Production (PTTEP, BUY, TP: THB132.00).

Sector:
OVERWEIGHT

Stock:
IRPC:
BUY,
THB4.45

Food & beverage

Thai Union
(TU TB)

Thai Union has rebranded its Songkla Canning (SCC) to i-Tail Corp (ITC) to make the firm its official business for the group’s pet food-related operations. TU CEO Thiraphong Chansiri said the launch of ITC was the result of the continuing strength of the group’s PetCare business.

“As demonstrated by our 2Q financial results, pet care is becoming an increasingly important part of the group, with customers now spending more time at home with their pets because of COVID-19,” Chansiri said, adding that, as a result of the change, the existing SCC plant would become the home of pet food production, with the production of human food being shifted to other TU plants.

Chansiri also said, to further support the future growth of pet care, TU had deployed a new roadmap that utilised innovation to enhance the nutritional aspects of its products. “A key role of the Global PetCare Innovation and Global Innovation Centre is to verify the innovation development and efficacy of our products, with the ultimate goal to bring health and longevity to the pets we serve,” he added. (*Prachachat, Company*)

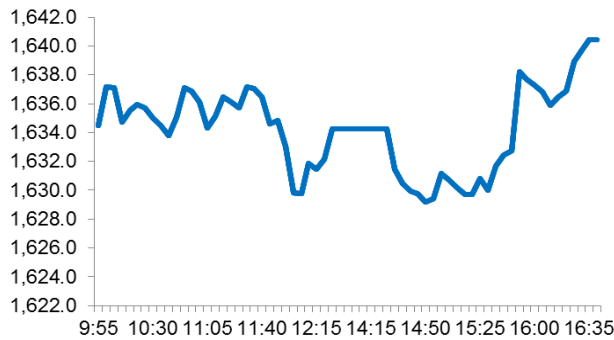
Pet care currently contributes c.17% of TU’s revenues. Annual pet care sales have grown from THB15.7bn in 2015 to THB20.1bn in 2020 at a CAGR of 6%, with continued upward margin trends (20-26%) from growing demand for pet food, increased automation, and launch of new, innovative products. 1H21 sales also grew 16% YoY to THB11.2bn. TU also possesses high competitiveness in this segment, as the group is vertically integrated and uses most of its domestic packaging and labelling from subsidiaries like Asia Pacific Can and Thai Union Graphic – most other players need to use external providers.

The global pet care industry currently stands at more than USD150bn, growing at a CAGR of 4-5% until 2026, mostly driven by cat and dog foods. The world’s cat population is expected to have a 4.4% CAGR growth (2015-2025) while dogs are estimated to have a 3.2% CAGR growth during this same period. ITC’s pet care sales revenues are mainly from the US (45%) and EU (20%), ie the major pet markets. The firm is planning to increase pet food capacity expansion by about 30% in 2023 and has an opportunity to be listed on the SET – although further details on this exercise have yet to be released.

We believe ITC’s parent, TU, should also see a seafood segment recovery, underpinned by the reopening of the US and EU economies. GPM should remain robust (17-18%) on better sales and manageable raw material costs. Emphasising more on pet food will also enhance the group’s future margins, in our view. We maintain our food & beverage sector call, with TU as our Top Pick. We also retain the group’s call and TP.

Sector:
NEUTRAL

Top Pick:
TU:
BUY,
TP: THB26.00

Chart 1: SET intra-day graph


SET	2019	2020	2021F	2022F
PE (x)	18.02	25.96	19.34	17.21
P/BV (x)	1.71	1.61	1.83	1.75
Yield (%)	3.28	3.26	2.52	2.74

SET Value by investor Type: Daily	Buy	Sell	Net
	(THBm)	(THBm)	(THBm)
Institution	3,952.47	6,541.50	-2,589.03
Proprietary	8,566.60	9,187.67	-621.07
Foreign	41,605.75	34,092.92	7,512.83
Retail	35,799.85	40,102.58	-4,302.73

SET Value by investor Type	MTD	YTD
	(THBm)	(THBm)
Institution	-6,795.69	-32,413.02
Proprietary	690.32	12,039.70
Foreign	9,562.52	-78,280.05
Retail	-3,457.14	98,653.36

SET50 Index Future	Long	Short	Net	MTD	YTD
	Institution	32,783	32,962	-179	-3,473
Foreign	64,090	68,845	-4,755	14,492	62,108
Local	93,944	89,010	4,934	-11,019	-95,656

Foreign Fund Flows (USDm)			MTD	YTD	YoY
	Thailand	229.9	172.9	293.1	-2522.3

Note: *As at 8 Sep 2021 closing

Table 1: Key market indices (9 Sep 2021)

	Index	Chg	Chg (%)	YTD (%)
Thailand (SET)	1640.45	4.00	0.24%	13.2%
Thailand (SET50)	992.35	1.02	0.10%	9.0%
Thailand (SET100)	2251.69	1.60	0.07%	10.5%
USA (Dow Jones)	35031.07	-68.93	-0.20%	14.5%
USA (S&P500)	4514.07	-5.96	-0.13%	20.2%
USA (Nasdaq)	15286.64	-87.69	-0.57%	18.6%
UK (FTSE)	7095.53	-53.84	-0.75%	9.8%
Singapore (FSSTI)	3068.94	-39.59	-1.27%	7.9%
Hong Kong (Hang Seng)	26320.93	-32.70	-0.12%	-3.3%
Japan (Nikkei)	30181.21	260.39	0.87%	10.0%
Malaysia (KLCI)	1597.63	14.15	0.89%	-1.8%
China (SHANGHAI SE)	3675.19	-1.40	-0.04%	5.8%
Indonesia (JCI)	6026.02	-86.38	-1.41%	0.8%

Foreign Exchange Rates / Oil Market			
USD	Closed	Chg	Chg (%)
Baht (Onshore)	32.76	0.00	-0.01
Yen	110.26	0.01	-0.01
Euro	1.18	0.00	0.00
Oil Price (USD/barrel)			
Brent	72.68	1.10	1.54
Nymex-Crude Light	69.26	-0.04	-0.06

Note: *As at 8 Sep 2021 closing

Top BUYs

	TP (THB)	Upside (%)	Catalysts
Airports of Thailand (AOT TB)	73.50	16.21	<ul style="list-style-type: none"> 3QFY21 (Sep) is likely the weakest quarter, as domestic aviation has led AOT's performance and the severe COVID-19 third wave may dampen local tourism activities. Cost optimisation efforts have been implemented effectively since 3QFY20, but variable expenses rose in tandem with a recovery in aeronautical activities post lockdown Regarding the Government's border re-opening scheme from Jul 2021 onwards, we expect some positive sentiment on the Phuket Sandbox Model towards AOT, as Phuket International Airport is its third-largest property As the first-tier tourism player, AOT may strongly underpin the revival of the tourism industry, while the weakening short-term sentiment and earnings present investors with an opportunity to BUY
Home Product Center (HMPRO TB)	16.40	17.99	<ul style="list-style-type: none"> Expecting normalising earnings in FY21 – to be supported by full-year operations of all stores and retail malls vs a temporary closure from late March to mid-May, with profit margins approaching pre-pandemic levels HMPRO's investment in Vietnam may strongly benefit growing urbanisation and a potential rise in the construction sector Quarterly earnings momentum will continue its upward trajectory in 1Q21 Rapid improvement in sustainability development may allow the stock to continue trading at a premium
Kasikornbank (KBANK TB)	150.00	25.52	<ul style="list-style-type: none"> One of opening theme plays, given the highest exposure to the small & medium enterprise or SME portion among the banks we cover or TH Banks Investors should look forward to an eventual recovery, as the recovery in the short term is likely to be uneven and take time before reaching pre-COVID-19 levels The bank trends to disrupt itself with new technologies. We believe this strategy will help the bank to improve profitability and quality in the long run FY21F earnings outlook is forecasted to rebound 8.5% in line with sector earnings. This is due to lower provisions and a rebound in net fees income Our valuation is conservative and its share price is trading below -1SD from the historical mean, which is compelling
PTT Exploration & Production (PTTEP TB)	132.00	23.94	<ul style="list-style-type: none"> We like PTTEP as a good proxy to stronger commodity prices 2Q21 earnings are expected to register stronger results on the back of stronger sales volumes and crude prices
PTT Global Chemical (PTTGC TB)	73.00	22.69	<ul style="list-style-type: none"> Bumper 1H21 earnings expected from robust petrochemical product spreads to translate into a strong FY21F rebound in YoY performance Current uptrend in oil prices also expected to see PTTGC regain its gas-based crackers' relative cost advantage over industry peers operating naphtha-based crackers
Siam Cement (SCC TB)	500.00	19.62	<ul style="list-style-type: none"> Petrochemicals is currently in an upcycle. HDPE-naphtha spread in 1Q21 should remain as high as levels recorded in 4Q20, while the polypropylene-naphtha spread reached another high in 1Q21. SCC's polyolefin sales volumes returned to normal levels after the turnaround of the Map Ta Phut olefin cracker was completed in 4Q20 The improvement in cement & building materials business should be noticeable in 1Q21, with cement demand growing 1-2% in Thailand. This would be due to stronger demand from the residential property sector in provincial areas, and continuously solid demand stemming from government infrastructure projects FY21 will start out with strong earnings growth in 1Q21, while the petrochemical division may be driven by higher production volume after de-bottlenecking the Map Ta Phut olefin cracker finishing 2Q21. For 2H21, we expect a brighter outlook for the cement & building materials business especially in ASEAN, when construction activities resume to normal
Tisco Financial (TISCO TB)	111.00	20.65	<ul style="list-style-type: none"> Superior asset quality to peers and strong capital base – highest among TH Banks – made TISCO deserve to trade at premium valuation. Its c.7% dividend yield is compelling and relatively highest among TH Banks, with full-year payment basis. We believe TISCO's conservative strategy amidst the pandemic will be proper, allowing the bank to survive post COVID-19 FY21 earnings is expected to rebound 7%YoY mainly on lower provisions and a rebound in net fees income, despite moderated NII and a slight increase in overheads

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